Proposed cut to IRS enforcement funding would spike federal deficit, CBO says

A proposal from Sen. Rand Paul, R-Ky., to rescind just over $25 billion in mandatory funding that was allocated to the Internal Revenue Service under the Inflation Reduction Act of 2022 (P.L. 117-169) to beef up its enforcement programs would result in a net increase to the federal deficit of nearly $23.8 billion over 10 years, according to an October 17 estimate from the nonpartisan Congressional Budget Office (CBO).
URL: https://www.taxnotes.com/research/federal/legislative-documents/public-laws-and-legislative-history/inflation-reduction-act-of-2022-%28p.l.-117-169%29/7dybc
URL: https://www.cbo.gov/system/files/2023-10/Whitehouse_letter-SA1226_10-16-2023_1.pdf

The estimate was prepared at the request of Senate Budget Committee Chairman Sheldon Whitehouse, D-R.I., who also has a seat on the taxwriting Senate Finance Committee.

According to CBO, the estimated hit to the deficit from Paul's proposal, which he has offered as an amendment to a three-bill fiscal year 2024 appropriations "minibus" that has not yet reached the Senate floor, reflects the combined effects of a $25.04 billion decrease in outlays and a $48.8 billion decrease in revenues from forgone tax collections.

The Senate minibus Paul is seeking to amend includes funding for Transportation-Housing and Urban Development; Agriculture, Rural Development, Food and Drug Administration, and Related Agencies; and Military Construction, Veterans Affairs, and Related Agencies. Negotiators are currently attempting to come to an agreement on an assortment of proposed amendments to the legislation. Paul has characterized his amendment as a companion version of a similar provision that is included in the Transportation-Housing and Urban Development funding measure approved by the House Appropriations Committee in July.

A partisan sore point

As enacted, the Inflation Reduction Act provided a total of nearly $80 billion in 10-year mandatory funding for the IRS to be allocated to enforcement ($45.6 billion), operations support ($25.3 billion), business systems modernization ($4.8 billion), and taxpayer services ($3.2 billion). Roughly $20 billion of the agency's original allocation will be clawed back as part of a "handshake" deal reached between President Biden and then-Speaker Kevin McCarthy, R-Calif., when they negotiated the Fiscal Responsibility Act (P.L. 118-5), the debt limit legislation that was signed into law this past June. Paul's proposed cut to the mandatory funding for IRS enforcement programs would apply in addition to the rescission enacted in the debt limit deal.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

Issues around IRS funding have long divided Democrats and Republicans in Congress and the additional mandatory appropriations made available in the Inflation Reduction Act exacerbated those tensions. Indeed, one of the first measures that the new House Republican majority moved through the chamber at the start of the 118th Congress in January was the Family and Small Business Taxpayer Protection Act (H.R. 23), which would eliminate some $71 billion of that new IRS funding—specifically, the portions allocated for enforcement activities and operations support—while preserving the remaining $9 billion that is set aside for taxpayer

services and business systems modernization. (The legislation has not been taken up in the Democratic-controlled Senate.)
URL: https://www.congress.gov/118/bills/hr23/BILLS-118hr23pcs.pdf

On enforcement issues specifically, Democrats generally argue that the funding boost in the Inflation Reduction Act will give the IRS the resources it needs to hire and deploy highly specialized auditors focused on top-tier corporations, large partnerships, and ultrawealthy individuals to help reduce the "tax gap"—that is, the difference between the dollar amount of taxes legally owed to the federal government and the amount actually paid and collected on a timely basis. (The most recent estimate from the IRS puts the gross federal tax gap at $688 billion in tax year 2021. For prior coverage, see *Tax News & Views*, Vol. 24, No. 34, Oct. 13, 2023.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2023/TNV/231013_3.html

Many GOP lawmakers, however, contend that the IRS will use the funds to hire an "army" of new revenue agents focused on audits of small businesses and middle-class individuals.

For his part, Sen. Whitehouse in an October 17 news release cited CBO's analysis of Paul's proposal as evidence that the GOP's primary interest in opposing additional enforcement funding is to shield certain taxpayer groups from heightened audit scrutiny.

"Republicans' priority always seems to be protecting big, tax-dodging donors. They try to jam these cuts into any bill they can," Whitehouse said. "Their repeated efforts, which would drive up the deficit, show for whom Republicans are really fighting. When push comes to shove, they are always out to protect mega-donors who don't want to pay what they owe. . . ."

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